



## **Pension Fund Committee**

**Date** Thursday 14 September 2023  
**Time** 10.00 am  
**Venue** Committee Room 2, County Hall, Durham

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### **Business**

#### **Part A**

#### **Items which are open to the Public and Press.**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 15 June 2023 (Pages 23 - 34)
4. Pension Fund Committee Training - Verbal Update
5. Overall Value of Pension Fund Investments to 30 June 2023 (Pages 35 - 38)
6. Performance Measurement of Pension Fund Investments to 30 June 2023 (Pages 39 - 48)
7. Feedback from Local Pension Board
8. Internal Audit Plan 2022/23 - Progress Report to 30 June 2023 (Pages 49 - 54)
9. Pension Fund Annual Report and Accounts - Verbal Update
10. Regulatory Update (Pages 55 - 74)
11. LGPS Consultation: Next Steps on Investments (Pages 75 - 84)

12. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
13. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

## **Part B**

### **Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)**

14. The Minutes of the Meeting held on 15 June 2023 (Pages 85 - 92)
15. Investment Strategy Review Update (Pages 93 - 122)
16. Report of the Pension Fund Adviser (Pages 123 - 152)
17. Report of the Independent Investment Adviser (Pages 153 - 184)
18. Border to Coast Pensions Partnership Quarterly Performance Report (Pages 185 - 240)
19. Report of Alliance Bernstein (Pages 241 - 258)
20. Report of Mondrian Investment Partners (Pages 259 - 262)
21. Report of CBRE Global Investment Partners (Pages 263 - 290)
22. Report of Foresight (Pages 291 - 314)
23. Border to Coast Pensions Partnership Private Monitor Report (Pages 315 - 400)
24. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

**Helen Bradley**

Head of Legal and Democratic Services

County Hall  
Durham  
6 September 2023

To: The Members of the Pension Fund Committee

**County Council Members:**

Councillors D Sutton-Lloyd, M Stead, J Atkinson, K Earley, C Fletcher, D Freeman, B Kellett, J Quinn, J Shuttleworth, W Stelling and C Varty

**Darlington Borough Council Members**

Councillors R Baker and M Porter

**Scheme Member Representatives**

A Delandre and J Taylor

**Further Education Colleges Representative**

A Broadbent

**Scheduled Bodies Representative**

(vacant)

**Admitted Bodies Representative**

(vacant)

**Advisers**

**County Council Officers**

J Hewitt – Chief Executive

P Darby – Corporate Director of Resources

H Lynch – Head of Legal and Democratic Services

P Cooper – Head of Pensions (LGPS)

J McMahon – Finance Manager

**Independent Advisers**

S Dickson – Mercer

A Fletcher – MJ Hudson Allenbridge

**Investment Managers**

Alliance Bernstein

Mondrian

CBRE

BCPP

**Observers**

N Hancock – UNISON and Local Pension Board

L Timbey – GMB

Councillor A Hopgood – Local Pension Board

Councillor D Stoker – Local Pension Board

L Oliver – Local Pension Board

W Pattison – Local Pension Board

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**Contact: Martin Tindle**

**Tel: 03000 269 713**

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Pension Fund Committee



Abbreviations

List of commonly used abbreviations

<b>AB</b>	Alliance Bernstein, the Fund's Bonds manager
<b>ACS</b>	Authorised Contractual Scheme, the collective investment scheme used by BCPP for asset pooling
<b>AUM</b>	Assets Under Management
<b>BCPP</b>	Border to Coast Pensions Partnership, the Fund's asset pool
<b>CBRE</b>	Coldwell Banker Richard Ellis, the Fund's Real Estate manager
<b>CEO</b>	Chief Executive Officer
<b>CIO</b>	Chief Investment Officer
<b>CIPFA</b>	The Chartered Institute of Public Finance and Accountancy
<b>CLG</b>	Communities and Local Government (former name of MHCLG)
<b>COO</b>	Chief Operating Officer
<b>COP</b>	Conference of Parties, a UN conference on climate change
<b>CPI</b>	Consumer Price Index
<b>CSR</b>	Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance
<b>DAA</b>	Dynamic Asset Allocation
<b>DGF</b>	Diversified Growth Fund

<b>EM</b>	Emerging Markets
<b>EMEA</b>	Europe, Middle East & Africa
<b>ESG</b>	Environmental, Social, and Governance – factors in assessing an investment’s sustainability
<b>FCA</b>	Financial Conduct Authority
<b>FRC</b>	Financial Reporting Council
<b>FSS</b>	Funding Strategy Statement
<b>FTA</b>	FTSE Actuaries UK Gilts Index Series
<b>FTSE</b>	Financial Times Stock Exchange
<b>GEM</b>	Global Emerging Markets
<b>GRESB</b>	Global ESG Benchmark for Real Assets
<b>HMT</b>	Her Majesty’s Treasury
<b>Infra</b>	Infrastructure
<b>IRR</b>	Internal Rate of Return
<b>ISS</b>	Investment Strategy Statement
<b>JC</b>	Joint Committee
<b>LGA</b>	Local Government Association
<b>LGPS</b>	Local Government Pension Scheme
<b>LAPFF</b>	Local Authority Pension Fund Forum
<b>LIBOR</b>	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
<b>LPB</b>	Local Pension Board
<b>MAC</b>	Multi Asset Credit
<b>MHCLG</b>	Ministry of Housing, Communities and Local Government
<b>MSCI</b>	formerly Morgan Stanley Capital International, publisher of global indexes

<b>NED</b>	Non-Executive Director
<b>NT</b>	Northern Trust, the Fund's Custodian
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PF</b>	Pension Fund
<b>PFC</b>	Pension Fund Committee
<b>PLSA</b>	Pensions and Lifetime Savings Association
<b>PRI</b>	The UN-supported Principles for RI
<b>RI</b>	Responsible Investment
<b>RPI</b>	Retail Price Index
<b>S&amp;P</b>	Standard & Poor's, ratings agency and provider of equity indices
<b>S151</b>	An officer with responsibilities under s151 of the Local Government Act 1972
<b>SAB</b>	Scheme Advisory Board
<b>SDG</b>	the UN's Sustainable Development Goals
<b>SILB</b>	Sterling Index Linked Bonds
<b>SONIA</b>	Sterling Over Night Index Average, the overnight interest rate paid by banks
<b>TCFD</b>	Taskforce on Climate Related Financial Disclosures
<b>TER</b>	Total Expense Ratio
<b>TPR</b>	The Pensions Regulator

**Author(s)**

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## Glossary of commonly used terms

### A

#### **Active Management**

Appointing investment professionals to track the performance of the Fund's mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.

#### **Active Member**

A current employee who is contributing to the pension scheme.

#### **Actuary**

An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.

#### **Actuarial Valuation**

The Fund's actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund's participating employers for the following three years. The valuation measures the Fund's assets and liabilities, with contribution rates set according to the Fund's deficit or surplus.

## **Additional Voluntary Contributions (AVCs)**

An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund's external AVC providers.

## **Administering Authority**

The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

## **Admission/Admitted Body**

An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.

## **Asset Allocation**

The apportionment of the Fund's assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund's investment objectives and is set out in the Investment Strategy Statement.

## **Authorised Contractual Scheme (ACS)**

A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Regulated by the Financial Conduct Authority, it is "tax transparent"; making it particularly useful for pooling pension assets.

## **B**

### **Benchmark**

A measure against which the investment policy or performance of an investment manager can be compared.

### **Border to Coast Pension Partnership (BCPP)**

The Fund's chosen asset pool. BCPP has 11 Partner Funds who collectively have around £45bn of assets. The Partner Funds have appointed a Board of Directors, chaired by Chris Hitchen, which is responsible for ensuring that Border to Coast is run effectively and in line with the guiding principles set by the shareholders. The Chief Executive Officer, Rachel Elwell, is responsible for the day to day running of Border to Coast along with her team.

### **Border to Coast Joint Committee**

As part of their oversight, BCPP Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

## **C**

### **CARE (Career Average Revalued Earnings)**

From 1 April, 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member's pay each scheme year rather than the final salary at leaving.

### **Cash Equivalent Value (CEV)**

This is the cash value of a member's pensions rights for the purposes of divorce or dissolution of a civil partnership.

## **Consumer Price Index (CPI)**

A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.

## **Commutation**

A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.

## **Convertible Shares**

Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.

## **Custodian**

A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. Custody is currently provided to the Fund by Northern Trust.

## **D**

### **Death Grant**

A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.

### **Deferred Member/Pensioner**

A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.

## **Defined Benefit Scheme**

A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee are fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.

## **Denomination**

The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.

## **Designating Body**

Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.

## **Discretion**

The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provision will apply. For the remaining discretionary provisions, a policy is advised.

## **Direct Property**

Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

## **Diversified Growth Funds (DGF)**

An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in

order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

## **E**

### **Employer Contribution Rates**

The percentage of an employee's salary participating employers pay as a contribution towards that employee's LGPS pension.

### **Employer Covenant**

The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.

### **Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

## **ESG**

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability

## **F**

### **Fiduciary Duty**

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

## **Financial Instruments**

Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

## **Fixed Interest Securities**

Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.

## **Fund of Funds (FoF)**

A fund that holds a portfolio of other investment funds.

## **G**

### **Guaranteed Minimum Pension (GMP)**

The LGPS guarantees to pay a pension that is at least as high as a member would have earned had they not been contracted out of the State Earning Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension (GMP).

## **I**

### **Index**

A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.

## **Internal Rates of Return (IRR)**

The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher an IRR, the more desirable an investment is to undertake.

## **L**

### **Local Government Pension Scheme (LGPS)**

The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have chosen to participate.

### **Local Pension Board (LBP)**

Since April 2015, each Administering Authority is required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

## **M**

### **Myners Principles**

A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' principles for defined benefit schemes cover:

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment



Responsible ownership

Transparency and reporting.

## O

### **Ordinary Shares**

An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

## P

### **Partner Funds**

The Fund's chosen asset pool, BCPP, has 11 Partner Funds - Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

### **Pension Liberation Fraud**

Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.

### **Pensions Online**

The Fund's online portal where scheme members may view their pensions records, complete retirement calculations, and update personal details.

### **Pensions Regulator**

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension

scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

## **Pooled Funds**

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

## **Pooling in the LGPS**

Central government requires local authorities to pool their pension assets, to achieve four principles:

1. Cost savings through economies of scale
2. Improved governance
3. Improved approach to responsible investment
4. Improved ability to invest in infrastructure

## **Proxy Voting**

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

## **Q**

## **Quantitative Easing**

Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

## **R**

### **Related Party Transactions**

This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.

### **Responsible Investment (RI)**

Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

### **Retail Price Index**

A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on movement in the Retail Price Index during the 12 months to the previous September. From April 2011, the Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

### **Return**

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

### **Rule of 85**

Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member's age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October, 2006 - however, members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

## **S**

### **Scheduled Body**

An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

### **Spot Rate**

The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much sellers are willing to accept depending on factors such as current market value and expected future market value.

### **State Pension Age (SPA)**

The earliest age at which State Pension can be paid, which different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.

### **Stock Lending**

This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

## **T**

### **TCFD**

The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent, climate related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LGPS by the end of 2021.

## **The Pension Advisory Service (TPAS)**

The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangement. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions.

## **Transfer Value**

A transfer value is a cash sum representing the value of a member's pension rights.

## **Transferred Service**

Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.

## **U**

## **UK Stewardship Code**

A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries. The Code was revised in 2020.

## **Unrealised gains/losses**

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

## **Author(s)**

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**DURHAM COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

At a Meeting of **Pension Fund Committee** held in **Committee Room 1A/1B, County Hall, Durham** on **Thursday 15 June 2023** at **10.00 am**

**Present:**

**Councillor D Sutton-Lloyd (Chair)**

**Members of the Committee:**

Councillors M Stead (Vice-Chair), J Atkinson, K Earley, D Freeman, B Kellett, M Porter (DBC), J Shuttleworth and W Stelling

**Council Advisers**

Paul Cooper – Head of Pensions (LGPS)  
Paul Darby – Corporate Director of Resources  
Jo McMahon – Finance Manager

**Investment Advisers**

Paul Campbell – BCPP  
Milo Kerr – BCPP

**Independent Advisers**

Sandy Dickson – Mercer  
Anthony Fletcher – MJ Hudson

**1 Apologies for Absence**

Apologies for absence were received from Councillors C Fletcher, A Broadbent, A Delandre and J Taylor.

**2 Declarations of interest**

There were no Declarations of Interest.

### **3 Minutes**

The minutes of the meeting held on 16 March 2023 were agreed as a correct record and signed by the Chair.

### **4 Pension Fund Committee Review of Terms of Reference**

The Committee considered a report of the Corporate Director of Resources which provided an update on the Pension Fund Committee Review of Terms of Reference (for copy see file of Minutes).

The Head of Pensions (LGPS), Paul Cooper noted that whilst the Terms of Reference remained relevant and fit for purpose, it was good governance to evaluate the Terms periodically. He added that there were no proposed changes, though noted a typographical error within Appendix A which would be amended to read "Investment Strategy Statement".

#### **Resolved:**

- (a) Provide any comments on the Terms,
- (b) That the Corporate Director of Resources be authorised to publish the Terms, subject to any comments of the Committee, and
- (c) Agreed that the Terms continue to be reviewed at least annually.

### **5 Pension Fund Committee Training - Verbal Update**

The Head of Pensions (LGPS) noted that Officers were reviewing a new online training offering which would support the mandatory training requirement for members of the Local Pension Board (LPB). While the requirements were not the same for the Committee, he wished to note that the offering would also be suitable in supporting the development needs of the Committee, and was seeking commitment from the Committee to support the undertaking of the online training offering being considered. He asked Members for their comments.

The Chair thanked The Head of Pensions (LGPS) and noted that he felt it was important to set a good example and felt such online bite-sized learning as described would prove useful. Councillor J Atkinson noted the size of the agenda packs and the breadth of the content and welcome any training, though noted he preferred in-person rather than electronic. He added that, if possible, a reduction in the size of agenda reports would be preferable, allowing Members to concentrate on any questions.



The Chair noted he had met with the Head of Pensions (LGPS) and the Chief Executive from BCPP and noted that whilst the reports were often technical, Officers were looking at how they could continue to make the reports more digestible and easier to understand.

Councillor K Early noted that such bite-size training may be beneficial, and looking at how Members offer challenge to Officers was important, especially given the number of commitments for Members in general.

The Head of Pensions (LGPS) agreed that being a Member of the Pension Fund Committee was a significant undertaking, with responsibility for almost £3.5 billion worth of assets, and it was important to understand the governance required and to provide challenge. He noted that the training proposed was in addition to the usual training that was delivered prior to any investment decisions.

Councillor B Kellett noted, as former Chair of the Committee, and Chair at the former City of Durham Council, that normally Pension Fund Committee reports were often lengthy, and he preferred hard copies where sections could be highlighted. Councillor J Atkinson noted the use of acronyms within reports. The Corporate Director of Resources, Paul Darby noted that bespoke training would be useful which could be included in the online package proposed, in terms of what lens to look at reports, how to question Officers and provide challenge to Officers, Advisors and Fund Managers. He noted similar types of training that had been delivered to Overview and Scrutiny Members in terms of scrutinising budgets in order to be confident in holding Officers to account. The Head of Pensions (LGPS) noted in terms of acronyms, a glossary of terms and abbreviations was appended to each set of agenda papers.

**Resolved:**

That the Head of Pensions (LGPS) bring further information relating to the additional training offering, and future training plans back to the Committee in due course.

## **6 Overall Value of Pension Fund Investments to 31 March 2023**

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund investments to 31 March 2023, the movement in cash balances during the last quarter (for copy see file of Minutes).

Councillor M Porter referred to paragraph 11 and asked as regards the cash outflow exceeding budgets and whether this had been mapped in advance and whether processes were in place to do so. The Finance Manager -

Revenue, Pensions and Technical Accounting, Jo McMahon explained that the issue arose from the timing of payment of some creditors' invoices.

**Resolved:**

That the information contained in the report be noted.

**7 Performance Measurement of Pension Fund Investments to 31 March 2023**

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 31 March 2023 (for copy see file of Minutes).

Councillor M Porter asked as regards how sound were investments made in terms of publicity and reputation. The Head of Pensions (LGPS) noted that in terms of reputational risk, that was an element within training for Pension Fund Committee Members, and that the Fund works closely with Border to Coast on its Responsible Investment Strategy, which the Fund adopts. He noted that it was a primary responsibility of the Committee was in relation to investment returns, but noted there was also a balance in terms of appropriately considering reputational damage that can arise from ESG issues. He reiterated that BCPP and their Responsible Investment Team helped to ensure this, working with Durham County Council (DCC) Officers and the Committee. Councillor M Porter noted as the Cabinet at Darlington Borough Council (DBC) were in the process of looking to obtain accreditation in investment, which may be useful in terms of decision making. The Head of Pensions (LGPS) noted he would be happy to speak to Councillor M Porter in this regard.

Councillor B Kellett noted the rate of return and asked if there were any more positive signs on the horizon. The Head of Pensions (LGPS) noted that markets had remained difficult since March 2022, however, noted further information from Advisors to the Committee would follow in the closed session following the exclusion of the public.

**Resolved:**

That the information contained in the report produced by the Fund's custodian, Northern Trust, be noted.

## **8 Feedback from Local Pension Board**

The Head of Pensions (LGPS) reminded Members that the Local Pension Board (LPB) met on an afternoon following Pension Fund Committee (PFC) meetings.

He noted that there had been no specific issues to feedback to the Committee from the last meeting in March, however, issues that the LPB had considered included pensions administration and the key performance indicators (KPIs), communications policy, internal disputes and LGPS appeals. He added that there was assurance that the LPB were reviewing all of those elements and reviewing them appropriately.

### **Resolved:**

That the verbal update be noted.

## **9 External Audit - Audit Strategy Memorandum**

The Committee considered a report of the External Auditor, Mazars relating to the Audit Strategy Memorandum (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that representatives from Mazars were unfortunately not able to attend, however, noted the report set out the terms of reference for External Audit for the year ending 31 March 2023. He noted the report contained sections on risk, statement of accounts and explained that the DCC Statement of Accounts and PFC Statement of Accounts had been completed and signed off by the Corporate Director of Resources within the statutory deadline of 31 May and published the same day. He added that only around one third of Local Authorities had met this deadline.

The Corporate Director of Resources thanked the Finance Manager and her Team for all their work in producing the Statement of Accounts and meeting deadlines which had now reverted to pre-pandemic timescales. He noted that DCC was only one of three Local Authorities within the region that had met the deadlines.

Councillor J Atkinson asked as regards costs relating to external audit and pre-pandemic levels. The Corporate Director of Resources noted there had been an increase, however, updated audit requirements and value for money elements had increased costs. Councillor J Atkinson still felt the increase was large.

The Corporate Director of Resources noted that one element was that costs had increased across the whole sector, not just for the North-East, with a lot of the large accountancy firms no longer being interested such work and therefore there had been some Government money in terms of making such work more attractive to those large accountancy firms.

**Resolved:**

That the External Audit - Audit Strategy Memorandum be noted.

**10 Internal Audit Plan 2022/23 - Progress Report to 31 March 2023**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2022 to 31 March 2023 as part of the 2022/2023 Internal Audit Plan (for copy see file of minutes).

Councillor M Porter noted that, from the number identified, there did not appear to be many issues from Internal Audit's perspective. The Audit Manager, Paul Monaghan noted Audit issued three levels of assurance, 'limited', 'moderate' and 'substantial', with the latter being the case and a very assured position. Councillor M Porter asked if all processes were automated, the Head of Pensions (LGPS) noted that processes were automated where possible, with some area being manually completed.

Councillor M Porter noted, as a former Pensions Manager, that she found a degree of concern that no issues had been found at all, noting in her experience all audit processes would find some issues. The Head of Pensions (LGPS) noted that the 'substantial' assurance did not mean that no issues had been found and raised with him, rather it was the highest-level assurance. He explained that such levels of assurance had not always been given in the past, the current position being as a result of work to improve processes in order to achieve a higher level of assurance. The Audit Manager noted that had there been any issues of significance they would have been flagged within the Committee report and a Part B report, containing details to be discussed in closed session, would be produced as necessary so that Members would be fully appraised of any issue. The Corporate Director of Resources noted for Councillor M Porter's information that Members from the DCC Audit Committee would be able to note that 'substantial' assurance levels were not given out as a matter of course, and that Members both on this Committee and Audit Committee were rigorous in their questioning and willing to call out any issues. The Chair agreed, noting he felt the processes were robust and reiterating that Members were thorough in their approach when looking at such reports.

## **Resolved:**

That the work undertaken by Internal Audit during the period ending 31 March 2023 be noted.

## **11 Regulatory Update**

The Committee considered a report of the Corporate Director of Resources which briefed the Committee on developments in matters that were both LGPS specific, as well as providing an update on non-LGPS specific matters of interest (for copy see file of Minutes).

Councillor B Kellett noted the points outlined regards the McCloud judgement and separately asked if there had been any interest from the Scheme Advisory Board (SAB) in terms of the LGPS Annual Report. The Head of Pensions (LGPS) noted Members were aware that Pension Fund Statement of Accounts formed part of Local Authority Statements of Accounts and while that had never been any issue for Durham, in some other areas and for other Pension Funds it had proven to be an issue, where those Local Authorities had not completed their Statement of Accounts on time. He added that therefore consideration was being given as to whether the two should be separated, however, those deliberations were at an early stage.

Councillor M Porter noted the importance of the McCloud judgement and noted the implications would result in a huge piece of work, noting the cost implications and asked as regards process and systems that would be utilised. The Head of Pensions (LGPS) agreed it would be a substantial piece of work and noted that one element of frustration was that the work would likely benefit a small proportion of scheme members. He noted that currently data was being pulled together and test loading undertaken but reiterated that it was anticipated there would be very few pensioners/scheme members impacted, though there would only be positive outcomes for those impacted. Councillor M Porter noted the huge task and the need to obtain external data from other providers. The Head of Pensions (LGPS) noted one issue had been as a result of GDPR where data relevant to McCloud that did not need to be collected at the time, and indeed could not be collected under the GDPR, had not been obtained since 2014. He noted that as a result of the McCloud judgement there was a need to identify gaps and go forward from there. He noted that the range of employers from whom data was required ranged from the largest ones, such as DCC and DBC, right through to much smaller employers. He noted processing would be ran on a test database initially, then worked on the live data, but reiterated it was a lengthy process.

Councillor J Atkinson noted paragraph 58 referred to LGPS and Sharia compliance and asked for additional information. The Head of Pensions (LGPS) noted it was an issue the SAB was looking at, though as they were not experts, a Sharia Law Scholar had been appointed to look at the matter. He added that there was concern that Sharia provisions had meant that many Muslim employees throughout the country had opted out of the LGPS. Councillor K Early noted the issue was complex and noted similar issues in relation to mortgages and that mechanisms had been developed in these cases. The Head of Pensions (LGPS) noted that the issue had been driven by scheme members, and there was evidence from other Local Authorities that many Muslim employees had perhaps been opting out of the LGPS.

*Councillor J Shuttleworth entered the meeting at 11.00am*

The Independent Investment Adviser, Anthony Fletcher noted the issue arose as Islam did not allow for interest on loans or investments and as it was a complex issue it was sensible for SAB to employ a Sharia Scholar to look at the issue, to try and help address the issue of those opting out of the LGPS.

**Resolved:**

That the information contained in the report be noted.

## **12 Review of Pension Fund Risks**

The Committee considered a report of the Corporate Director of Resources which updated Members on the revisions to the Local Government Pension Scheme (LGPS) Pension Fund Risk Register, following a review with the Principal Risk and Governance Officer in May 2023 (for copy see file of Minutes).

The Chair noted frustration in terms of the security breach at Capita, a third-party pensions administration provider, and noted that the updates received were very useful, especially the recent update relating to cybersecurity from the DCC ICT Officers. Councillor M Porter asked as regards cyber risk. The Head of Pensions (LGPS) noted that transfer information to Capita had been paused while the issue was resolved, with those impacted to be contact in writing and asked if they wish to continue. He noted that the Actuary, AON was undertaking a bespoke review of cybersecurity specific to Pension Funds and a free review and 'scorecard' were available which would help determine if there were any pensions-specific deficiencies or issues. Initial feedback from AON advisors was that the Fund was robust regards cybersecurity.

Councillor K Early noted that the information provided some reassurance, noting another large cybersecurity issue recently reporting in the press relating to outsourced payroll services for large organisations such as the BBC and British Airways. The Head of Pensions (LGPS) noted that within DCC that service sat with the Corporate Director of Resources directorate, though he understood some Local Authorities use third-party organisations. Councillor K Early noted that the likely reason the third-party payroll organisation was targeted was due to the large number of larger companies it dealt with. The Corporate Director of Resources noted that wherever DCC outsourced any function, within contract there were references to data protection, and he explained that during the procurement process there was great emphasis placed on cybersecurity and a number of checks had to be satisfied. He noted that alongside these elements, DCC issued regular updates and training relating to cyberattacks and common methods used such as phishing e-mails.

The Independent Investment Adviser noted two observations in respect of the risk register, the first being that, in his experience in dealing with many Local Authorities, the one from Durham was very clear in the way it was set out. He added that it may be beneficial for Members if the risks were highlighted red, amber, green to give an indication of their significance. He Head of Pensions (LGPS) noted that risks were scored on such a 'RAG' basis in terms of net scores, but agreed that it could be highlighted within the tables used. Councillor K Early agreed that would be helpful for Members.

**Resolved:**

That the report provides assurance that the Pension Fund risks are being effectively managed within the Council's risk management framework.

**13 Exclusion of the Public**

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

*Councillor W Stelling left the meeting at 11.30am*

**14 Minutes**

The minutes of the meeting held on 16 March 2023 were agreed as a correct record and signed by the Chair.

## **15 Report of the Independent Investment Adviser**

The Committee considered a report of the Independent Investment Adviser, Anthony Fletcher of MJ Hudson (for copy see file of minutes).

### **Resolved:**

That the information contained in the report be noted.

## **16 Investment Strategy Review Update**

The Committee considered a report of the Corporate Director of Resources which provided an update on progress made towards implementing asset allocation decisions (for copy see file of minutes).

### **Resolved:**

That the recommendations in the report be approved.

## **17 Report of the Pension Fund Adviser**

The Committee considered the report of the Independent Adviser, Sandy Dickson of Mercer (for copy see file of minutes).

### **Resolved:**

That the information contained in the report be noted.

## **18 Border to Coast Pensions Partnership Quarterly Performance Report**

P Campbell and M Kerr provided an update to Members on progress with the Border to Coast Pensions Partnership which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings;
- d) Information on Global Real Estate Strategy.

### **Resolved:**

That the information contained in the report be noted.



## **19 Report of Alliance Bernstein**

Consideration was given to a report from Alliance Bernstein which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

### **Resolved:**

That the information contained in the report be noted.

## **20 Report of Mondrian Investment Partners**

Consideration was given to a report from Mondrian Investment Partners which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

### **Resolved:**

That the information contained in the report be noted.

## **21 Report of CBRE Global Investment Partners**

Consideration was given to a report from CBRE which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

### **Resolved:**

That the information contained in the report be noted.

## **22 Report of Foresight**

Consideration was given to a report from Foresight which included:

- a) Manager's views on the economy and investment strategy for the future;
- b) Investment Policy;
- c) List and valuation of investment holdings.

### **Resolved:**

That the information contained in the report be noted.

## **23 Border to Coast Pensions Partnership Private Monitor Report**

The Committee considered a report of Northern Trust which provided an analysis of cash flow, portfolio funding, partnership performance and comparative analysis to December 2022.

### **Resolved:**

That the information contained in the report be noted

**Pension Fund Committee**

**14 September 2023**

**Overall Value of Pension Fund  
Investments to 30 June 2023**



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**Report of Paul Darby, Corporate Director of Resources**

**Purpose of the Report**

1. To provide an update to Members on the:
  - (a) overall value of the Pension Fund's investments at 30 June 2023, and;
  - (b) movement in the cash balance during the quarter.

**Executive Summary**

2. The overall value of the Fund as at 30 June 2023 was £3.367 billion and the cash balance held in the Durham County Council Pension Fund bank account was £36.820 million. Fund managers also held cash of £29.628 million at that date.
3. Restructuring of the Fund's asset allocation has been undertaken, in line with decisions made by the Committee. During the Quarter, the Fund concluded investment into Investment Grade Credit, whilst planning for the Fund's Emerging Markets transitions continued – work which was successfully concluded after the Quarter's end. The completion of these investments through Border to Coast Pensions Partnership concludes the pooling of the liquid assets within the Fund's strategy. The Fund's cashflows will be remodelled to reflect the positive income generated from Investment Grade Credit.

**Recommendation**

4. Members are asked to note and agree the information contained within this report.

## **Value of the Pension Fund**

5. Reports from the five listed fund managers, namely:

- AB
- BCPP
- CB Richard Ellis
- Mondrian
- Foresight

are included in Part B of today's agenda.

6. The value of the Fund at 30 June 2023 was £3.367 billion compared to £3.354 billion at 31 March 2023. This is an increase of £13 million (or 0.39%) in the first quarter of 2023/24.

## **Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall**

7. New investment money is allocated to fund managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.

8. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers. As at 30 June 2023, the cash balance held in the Durham County Council Pension Fund bank account was £36.820 million. In addition to this, Fund Managers were holding cash of £29.628 million at 30 June 2023.

9. Since the last meeting of the Committee, the Fund has concluded investment into Border to Coast's Sterling Investment Grade Credit Fund. During the quarter transition planning for the Fund's Emerging Markets mandate continued – with transition to Border to Coast concluding after the Quarter's end. The Emerging Markets Fund provides accumulation units, but the Investment Grade Fund provides access to income units meaning that income will regularly be distributed back to the Fund.

10. Revised cashflow modelling will be provided to the Committee in December to reflect the implementation of the new strategic asset allocations and positive income generated from Investment Grade Credit. Additionally, the modelling will include enhanced variance analysis. It is proposed that enhanced reporting on cash flow information is presented to the Committee every six months.

## **Fund Rebalancing**

11. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to fund managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement. It is also the means by which cash is moved to or from managers as a consequence of the cash flow forecasts.
  
12. Now that the restructuring of the Fund's liquid assets has been implemented, in line with decisions taken by the Committee, periodic rebalancing will be instigated in line with the revised strategic asset allocation. The revised rebalancing approach will reflect the change in the composition of the liquid assets held by the Fund. Due to asset transitioning undertaken, no rebalancing took place during the quarter.

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<b>Contact:</b>	Jo McMahon	Tel: 03000 261968
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**Pension Fund Committee**

**14 September 2023**

**Performance Measurement of Pension  
Fund Investments to 30 June 2023**



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**Report of Paul Darby, Corporate Director of Resources**

**Purpose of the Report**

- 1 To provide an overview of the investment performance of the Pension Fund to 30 June 2023.

**Recommendation**

- 2 Members to note the information contained within the attached report produced by Northern Trust, the Fund's custodian.

**Background**

- 3 The performance of the five fund managers is measured against personalised benchmarks chosen at the inception of the fund. The attached performance report from Northern Trust shows:
  - (a) The fund managers' benchmarks;
  - (b) The total fund performance for the quarter to 30 June 2023, plus the last 1, 3, 5 and 10 years and since inception;
  - (c) Individual fund managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter 30 June 2023, plus the last 1, 3, 5 and 10 years and since inception.

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**Contact:**

Jo McMahon

Tel: 03000 261968

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NORTHERN  
TRUST

# Durham CC Pension Fund

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## Investment Risk & Analytical Services

June 30, 2023

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SECTION 1

# Durham CC Pension Fund

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Investment Risk & Analytical Services

June 30, 2023

Investment Hierarchy (Arithmetic Excess)

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return								Inception to Date	Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years				
<b>Durham CC Pension Fund</b>	<b>3,367,043,072</b>	<b>100.00</b>	<b>2.47</b>	<b>0.02</b>	<b>4.85</b>	<b>3.31</b>	<b>4.46</b>	<b>6.10</b>	<b>6.17</b>	<b>29/02/2008</b>		
<i>Durc Total Plan Benchmark</i>			2.59	1.13	5.73	4.68	5.93	7.62	7.75	29/02/2008		
<i>Excess Return</i>			-0.12	-1.11	-0.88	-1.37	-1.47	-1.52	-1.58	29/02/2008		
<b>Alliance Bernstein</b>	<b>173,154,672</b>	<b>5.14</b>	<b>-0.35</b>	<b>-0.27</b>	<b>2.65</b>	<b>-0.59</b>	<b>0.67</b>	<b>1.61</b>	<b>2.64</b>	<b>29/02/2008</b>		
<b>Alliance Bernstein</b>	<b>173,154,672</b>	<b>5.14</b>	<b>-0.35</b>	<b>-0.27</b>	<b>2.65</b>	<b>-0.59</b>	<b>0.67</b>	<b>1.61</b>	<b>2.64</b>	<b>29/02/2008</b>		
<i>SONIA + 3%</i>			0.62	1.83	6.20	4.21	4.09	3.79	4.08	29/02/2008		
<i>Excess Return</i>			-0.97	-2.10	-3.55	-4.80	-3.42	-2.18	-1.44	29/02/2008		
<b>CBRE 1</b>	<b>216,974,686</b>	<b>6.44</b>	<b>-0.69</b>	<b>-0.38</b>	<b>-8.40</b>	<b>4.21</b>	<b>4.47</b>	<b>6.74</b>	<b>4.20</b>	<b>29/02/2008</b>		
<b>CBRE 1</b>	<b>216,974,686</b>	<b>6.44</b>	<b>-0.69</b>	<b>-0.38</b>	<b>-8.40</b>	<b>4.21</b>	<b>4.47</b>	<b>6.74</b>	<b>4.20</b>	<b>29/02/2008</b>		
<i>RPI + 5%</i>			0.68	3.68	14.81	13.50	10.88	9.20	8.89	29/02/2008		
<i>Excess Return</i>			-1.36	-4.06	-23.21	-9.29	-6.41	-2.45	-4.69	29/02/2008		
<b>CBRE 2</b>	<b>45,899,342</b>	<b>1.36</b>	<b>0.35</b>	<b>-2.40</b>	<b>-3.80</b>	<b>6.77</b>	<b>4.32</b>	<b>6.20</b>	<b>5.49</b>	<b>29/02/2008</b>		
<b>CBRE 2</b>	<b>45,899,342</b>	<b>1.36</b>	<b>0.35</b>	<b>-2.40</b>	<b>-3.80</b>	<b>6.77</b>	<b>4.32</b>	<b>6.20</b>	<b>5.49</b>	<b>29/02/2008</b>		
<i>RPI + 5%</i>			0.68	3.68	14.81	13.50	10.88	9.20	8.89	29/02/2008		
<i>Excess Return</i>			-0.33	-6.09	-18.62	-6.74	-6.56	-3.00	-3.40	29/02/2008		
<b>Mondrian</b>	<b>165,292,088</b>	<b>4.91</b>	<b>2.69</b>	<b>-0.76</b>	<b>2.59</b>	<b>4.46</b>	<b>4.00</b>	<b>-</b>	<b>4.32</b>	<b>31/10/2014</b>		
<b>Mondrian</b>	<b>165,292,088</b>	<b>4.91</b>	<b>2.69</b>	<b>-0.76</b>	<b>2.59</b>	<b>4.46</b>	<b>4.00</b>	<b>-</b>	<b>4.32</b>	<b>31/10/2014</b>		
<i>MSCI Emerging Markets GD +2.5%</i>			1.48	-1.11	0.24	4.27	4.62	-	7.86	31/10/2014		
<i>Excess Return</i>			1.21	0.35	2.35	0.20	-0.62	-	-3.53	31/10/2014		
<b>BCPP</b>	<b>2,566,729,545</b>	<b>76.23</b>	<b>3.01</b>	<b>0.06</b>	<b>5.49</b>	<b>5.01</b>	<b>-</b>	<b>-</b>	<b>4.15</b>	<b>30/09/2019</b>		
<b>BCPP Global Equity Alpha Fund</b>	<b>1,388,339,919</b>	<b>41.23</b>	<b>3.45</b>	<b>2.47</b>	<b>15.87</b>	<b>11.75</b>	<b>-</b>	<b>-</b>	<b>9.65</b>	<b>24/10/2019</b>		
<i>MSCI ACWI ND + 2%</i>			3.30	3.76	13.56	11.99	-	-	11.32	24/10/2019		
<i>Excess Return</i>			0.15	-1.29	2.31	-0.24	-	-	-1.68	24/10/2019		
<b>BCPP Investment Grade Credit F</b>	<b>166,091,021</b>	<b>4.93</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-0.60</b>	<b>23/06/2023</b>		
<i>DURC14 iBoxx £ Non-Gilts</i>			-	-	-	-	-	-	-0.48	23/06/2023		
<i>Excess Return</i>			-	-	-	-	-	-	-0.12	23/06/2023		
<b>BCPP Listed ALT FD</b>	<b>147,468,872</b>	<b>4.38</b>	<b>-0.95</b>	<b>0.14</b>	<b>-2.22</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5.51</b>	<b>31/01/2022</b>		
<i>MSCI ACWI</i>			3.19	3.43	11.89	-	-	-	2.82	31/01/2022		
<i>Excess Return</i>			-4.14	-3.28	-14.11	-	-	-	-8.32	31/01/2022		
<b>BCPP Multi Asset Credit Fund</b>	<b>523,168,006</b>	<b>15.54</b>	<b>1.17</b>	<b>1.36</b>	<b>6.37</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-4.10</b>	<b>14/10/2021</b>		
<i>SONIA + 3%</i>			0.62	1.83	6.20	-	-	-	5.06	14/10/2021		
<i>Excess Return</i>			0.56	-0.47	0.17	-	-	-	-9.16	14/10/2021		
<b>BCPP Sterling Index Linked Bd</b>	<b>341,661,727</b>	<b>10.15</b>	<b>5.84</b>	<b>-9.91</b>	<b>-26.80</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-19.80</b>	<b>08/10/2020</b>		
<i>FTSE Index Linked 15+Yrs+0.02%</i>			5.84	-10.19	-26.92	-	-	-	-20.01	08/10/2020		
<i>Excess Return</i>			0.00	0.28	0.11	-	-	-	0.21	08/10/2020		

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception to Date	Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years			
<b>BCPP Private Market</b>	<b>196,692,758</b>	<b>5.84</b>	<b>2.51</b>	<b>2.39</b>	<b>40.85</b>	-	-	-	<b>18.93</b>	<b>30/11/2020</b>	
<b>BCPP Private Markets</b>	<b>196,692,758</b>	<b>5.84</b>	<b>2.51</b>	<b>2.39</b>	<b>40.85</b>	-	-	-	<b>18.93</b>	<b>30/11/2020</b>	
<b>Foresight Regional Investments</b>	<b>2,299,982</b>	<b>0.07</b>	<b>-26.49</b>	<b>-28.58</b>	-	-	-	-	<b>-29.19</b>	<b>31/08/2022</b>	
<b>Foresight Regional Investment</b>	<b>2,299,982</b>	<b>0.07</b>	<b>-26.49</b>	<b>-28.58</b>	-	-	-	-	<b>-29.19</b>	<b>31/08/2022</b>	
<i>15% Absolute Return</i>			<i>1.17</i>	<i>3.56</i>	-	-	-	-	<i>12.35</i>	<i>31/08/2022</i>	
<i>Excess Return</i>			<b>-27.66</b>	<b>-32.14</b>	-	-	-	-	<b>-41.54</b>	<b>31/08/2022</b>	

## Market Value Summary - One Month

Account/Group	31/05/2023 Market Value	Net Contribution*	Income	Fees	Appreciation	30/06/2023 Market Value
<b>Durham CC Pension Fund</b>	<b>3,278,189,852</b>	<b>7,902,159</b>	<b>3,958,635</b>	<b>895</b>	<b>76,992,426</b>	<b>3,367,043,072</b>
<b>Alliance Bernstein</b>	<b>173,771,428</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-616,756</b>	<b>173,154,672</b>
Alliance Bernstein	173,771,428	0	0	0	-616,756	173,154,672
<b>CBRE 1</b>	<b>218,473,969</b>	<b>-895</b>	<b>825,751</b>	<b>895</b>	<b>-2,324,140</b>	<b>216,974,686</b>
CBRE 1	218,473,969	-895	825,751	895	-2,324,140	216,974,686
<b>CBRE 2</b>	<b>45,739,452</b>	<b>0</b>	<b>264,048</b>	<b>0</b>	<b>-104,159</b>	<b>45,899,342</b>
CBRE 2	45,739,452	0	264,048	0	-104,159	45,899,342
<b>Mondrian</b>	<b>237,888,802</b>	<b>-79,000,000</b>	<b>2,168,044</b>	<b>0</b>	<b>4,235,241</b>	<b>165,292,088</b>
Mondrian	237,888,802	-79,000,000	2,168,044	0	4,235,241	165,292,088
<b>BCPP</b>	<b>2,415,590,826</b>	<b>78,504,621</b>	<b>0</b>	<b>0</b>	<b>72,634,098</b>	<b>2,566,729,545</b>
BCPP Global Equity Alpha Fund	1,403,182,997	-63,051,702	0	0	48,208,624	1,388,339,919
BCPP Investment Grade Credit F	0	166,620,990	0	0	-529,969	166,091,021
BCPP Listed ALT FD	148,890,067	0	0	0	-1,421,194	147,468,872
BCPP Multi Asset Credit Fund	517,099,684	0	0	0	6,068,322	523,168,006
BCPP Sterling Index Linked Bd	346,418,078	-25,064,667	0	0	20,308,316	341,661,727
<b>BCPP Private Market</b>	<b>183,596,652</b>	<b>8,398,433</b>	<b>700,791</b>	<b>0</b>	<b>3,996,882</b>	<b>196,692,758</b>
BCPP Private Markets	183,596,652	8,398,433	700,791	0	3,996,882	196,692,758
<b>Foresight Regional Investments</b>	<b>3,128,722</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-828,740</b>	<b>2,299,982</b>
Foresight Regional Investment	3,128,722	0	0	0	-828,740	2,299,982

\*Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.  
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

SECTION 2

# Appendix

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## Investment Risk & Analytical Services

June 30, 2023

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**Pension Fund Committee**

**14 September 2023**



**Internal Audit Plan 2023/24 - Progress  
Report to 30 June 2023**

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**Report of Tracy Henderson, Chief Internal Auditor and Corporate  
Fraud Manager**

**Electoral division(s) affected:**

Countywide.

**Purpose of the Report**

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2023 to 30 June 2023 as part of the 2023/24 Internal Audit Plan.

**Executive Summary**

- 2 The report provides Members with the progress that has been made in delivering the Pension Fund Internal Audit Plan for 2023/24 up to 30 June 2023 and aims to:
  - (a) Provide a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;
  - (b) Advise on any significant issues where controls need to improve in order to effectively manage risks;
  - (c) Advising of any other types of audit work carried out, such as consultancy reviews where an assurance opinion on the control environment may not be applicable;
  - (d) Advise of any unplanned work carried out or due to be carried out and any changes to the audit process.

**Recommendation**

- 3 Members are asked to note the work undertaken by Internal Audit during the period ending 30 June 2023 and that the next update will relate to progress achieved to 31 December 2023.

## Background

- 4 As an independent consultancy service, the Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Pension Fund Committee.
- 5 The Annual Internal Audit Plan 2023/24, covering the period 1 April 2023 to 31 March 2024, was approved by the Pension Fund Committee on 16 March 2023.

### Progress against 2023/24 planned work:

- 6 A summary of the approved audit plan, with the status of each audit, is shown below:

Audit Title	Audit Type	Status	Opinion
<b>Audits brought forward from 2022/23</b>			
Compliance with Breach Policy	Assurance	Final Report	Substantial
Pensions Payroll	Assurance	Final Report	Substantial
<b>2023/24 audits</b>			
Debt Recovery	Assurance	Scheduled Q4	
Transfer Values In and Out of the Pension Fund	Assurance	Scheduled Q4	
Additional Voluntary Contributions	Assurance	Scheduled Q3	
Contributions	Assurance	Scheduled Q3	
Governance Arrangements (including Pool)	Assurance	Scheduled Q4	
Management time and ad hoc advice & guidance	Advice/Consultancy	In Progress	

- 7 Of the seven assurance audits planned for 2023/24, two of which relate to audits slipped forward from the 2022/23 audit year, final reports were issued in the period for both of these. The scope of these reviews and the assurance opinion issued following the conclusion of the audits is shown in the table below:

<b>Audit Area</b>	<b>Brief Scope</b>	<b>Assurance Opinion</b>
Compliance with Breach Policy	Assurance review of the arrangements in place to mitigate against the risk of non-compliance of reporting breaches of the law to the Pensions Regulator.	Substantial
Pensions Payroll	Assurance review of the arrangements in place to mitigate against the risk of pension payments being inaccurate or not being made promptly.	Substantial

8 Given that the five remaining audits are scheduled for quarter three and four, it is proposed that the next update to the Committee will relate to progress achieved to the end of quarter three. The scheduling of the five remaining reviews was agreed with the Head of Pensions.

### **Background papers**

- Specific Internal Audit reports issued and working papers.

### **Other useful documents**

- None

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**Contact:** Paul Monaghan

**Tel:** 03000 269662

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## **Appendix 1: Implications**

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### **Legal Implications**

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

### **Finance**

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

### **Consultation**

Head of Pensions, Finance Manager and Corporate Director of Resources.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Climate Change**

There are no direct implications on climate change as a result of this report, however the Internal Audit Service ensures that it considers climate change and sustainability in the recommendations that are made.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

## **Accommodation**

None.

## **Risk**

The key risk is that actions agreed in audit reports to improve the control environment and assist the Pension Fund in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Pension Fund Committee.

## **Procurement**

None.

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**Pension Fund Committee**

**14 September 2023**

**Regulatory Update**



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**Report of Paul Darby, Corporate Director of Resources**

**Purpose of the Report**

- 1 This report briefs the Committee on developments in matters that are both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters which are of interest.

**Executive summary**

- 2 There are a number of developments that will potentially impact the requirements placed upon the Fund, both specific to the LGPS and more generally. This report seeks to keep the Committee updated with those developments

**Recommendation(s)**

- 3 The Pension Fund Committee is asked to note the report.

## **Background**

- 4 This report provides an update to Committee on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:
  - (a) LGPS specific matters, and;
  - (b) Non-LGPS specific matters that are of interest to the Committee.

## **LGPS Specific Matters**

### **DLUHC Consultation – LGPS: Fair Deal – Strengthening Pension Protection**

- 5 In January 2019, The Department for Levelling Up Housing and Communities (DLUHC), formerly MHCLG, launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.
- 6 DLUHC are currently considering the responses received, with a consultation response expected in due course. The Chair of the LGPS Scheme Advisory Board (SAB), has written to DLUHC to request an update on the Fair Deal policy. The Ministry was asked whether the policy was under active consideration and how the SAB could contribute to the process. Officers will continue to monitor the position.

### **DLUHC consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk**

- 7 In May 2019 DLUHC consulted on a number of changes to the LGPS, encompassing the following areas:
  - amendments to the local fund valuations from the current 3-year (triennial) to a 4-year (quadrennial) cycle
  - a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
  - proposals for flexibility on exit payments
  - proposals for further policy changes to exit credits



- proposals for changes to the employers required to offer local government pension scheme membership
- 8 On 27 February DLUHC published a partial response to the consultation, covering proposals on exit credits only. DLUHC confirmed their intention to amend the Regulations providing greater discretion to Administering Authorities over the amount of any exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 were subsequently laid before parliament, coming into force on 20 March 2020 with backdated effect to 18 May 2018. The Fund has published its policy in relation to Exit Credits, which will be reviewed in light of a recent High Court judgement that provided further direction to LGPS Funds.
  - 9 DLUHC has also published a partial response in respect of employer contributions and flexibility on exit payments. The Fund has finalised its policy approach to Employer Flexibilities following consultation with participating employers – the Committee are asked elsewhere on the agenda to approve the consolidation of the Fund’s policies on Employer Flexibilities and Employer Exits.

### **Ongoing Consultation – Guaranteed Minimum Pensions (GMP)**

- 10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6<sup>th</sup> December 2018 should be indexed.
- 11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6<sup>th</sup> April 2016 and 5<sup>th</sup> December 2018 to those that reach state pension age on or before 5<sup>th</sup> April 2021.
- 12 On 23 March 2021 Her Majesty’s Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.
- 13 Additionally, the Fund has gone through a significant exercise to reconcile the GMP data it holds. Individual GMP values can often misalign with the values held by HMRC with discrepancies occurring

both in terms of membership periods for which GMP accrued, and the GMP value itself. Following the conclusion of the reconciliation exercise, the Fund has commenced implementation of its approach to GMP Rectification, with a separate report previously presented to the Committee. Work is ongoing to implement pensioner changes by October 2023.

### **Levelling Up White Paper – LGPS Local Investment Plans**

- 14 In February 2022 the government published its Levelling Up whitepaper which includes references to LGPS funds having plans for up to 5% of assets to be allocated to projects which support local areas. The whitepaper indicates government intention to “work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas”.
- 15 The Fund recently finalised an impact investment in the North-East which will support SME finance in the region, which is understood to meet the definitions set out in the whitepaper. Meanwhile, as part of their strategic plan, BCPP are progressing development of impact investing capabilities which will consider opportunities to support local investment decisions.
- 16 The LGPS Scheme Advisory Board have indicated that in the context of ‘local’ the whitepaper refers to UK rather than local to a particular LGPS fund. The Board have also advised that their understanding is that there will be no mandatory requirement beyond the requirement to have a plan. Further details will emerge over the period up to an expected consultation which is expected to also include statutory pooling guidance.
- 17 Separately, On December 9th, the Chancellor of the Exchequer announced a set of reforms (which were previously shared with the Committee) intended to drive growth and competitiveness in the financial services sector. It has been confirmed that the Government will be consulting on issuing new guidance on Local Government Pension Scheme asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy. The Committee will be kept informed.
- 18 The consultation ‘LGPS: Next Steps on Investments’ is now live. A briefing on the consultation will be provided to both the Committee and Board at their September meetings.

### **Mandatory TCFD Reporting**

- 19 The Committee have previously been informed that, using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) consulted on draft regulations requiring occupational pension schemes to meet climate governance requirements, publish a Taskforce on Climate-related Financial Disclosures (TCFD) report and include a link to the report in their annual report and accounts.
- 20 Whilst the regulations will not apply to the LGPS it was always expected that DLUHC would bring forward similar proposals requiring TCFD disclosures in the LGPS.
- 21 The Fund's pooling partner, Border to Coast Pensions Partnership (BCPP) are supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and have just published their second TCFD report aligned with the recommendations. This covers the approach to climate change across the four thematic areas of Governance, Strategy, Risk Management, and Metrics and Targets. The report demonstrates the improvements and developments made across the four key areas. The report can be found online at the following link <https://www.bordertocoast.org.uk/sustainability/>.
- 22 BCPP will support Partner Funds ahead of any mandatory reporting requirements through the Officers Operation Group RI workshops, delivering training, and by providing reporting. BCPP have held discussions to understand all Partner Funds' requirements on carbon reporting on assets, including those that are currently not held in the pool.
- 23 A BCPP procurement for carbon data, including forward-looking metrics (scenario analysis), will take into account the reporting requirements of Partner Funds for equity and fixed income portfolios. Obtaining carbon data for Private Markets is more challenging and BCPP are looking into solutions for these portfolios held in the pool. Additionally, Officers are working with the Fund actuary to consider how to reflect climate scenario analysis in 2022 valuation reporting.
- 24 On 1 September DLUHC launched its consultation regarding governance and reporting of climate change risks. The consultation seeks views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- 25 The consultation proposes that LGPS administering authorities would calculate the 'carbon footprint' of their assets and assess how the value of each fund's assets or liabilities would be affected by different

temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement. The consultation (previously shared with the Committee) closed on 24 November 2022. As discussed with the Committee previously, Officers prepared a response in consultation with the Chair and Vice Chair of the Committee. A copy of the response is has previously been shared with the Committee and Board.

- 26 An overview of TCFD was included in training for members of the Committee last year. A more detailed report, and further training will be provided to the Committee on the details of the TCFD expectations, as well as the availability of data through BCPP, and scenario analysis commissioned through the Fund actuary. It is currently expected that the first LGPS TCFD reporting will become due in late 2025.

### **Cost Control Mechanism & Review**

- 27 The Committee has been informed previously of the Cost Control Mechanism in the LGPS and other public sector schemes which sets both a cost 'ceiling' and 'floor' in respect of the ongoing affordability of public sector pensions. This creates a "cost corridor" designed to keep schemes within 2% of target costs.
- 28 Before the impact of McCloud, provisional cost management assessments indicated floor breaches in most public sector schemes, that may have resulted in an improvement to benefits or reduction in member contributions. At the request of HMT, GAD carried out a review of the Cost Control Mechanism across the public sector.
- 29 Members were informed previously that it had not previously been possible to assess the value of the public service pensions arrangements with any certainty due to the anticipated implications of the Court of Appeal judgements in McCloud and Sargeant.
- 30 The Fund's own position on McCloud has also been discussed previously, with the Actuary outlining in detail how the issue was to be reflected in the 2019 Valuation. The approach taken added an additional 0.9% to the employer contribution rate for all employers at the 2019 valuation.
- 31 In July 2021 however, it was confirmed that the impact of McCloud would be classed as "member costs" for the purpose of the 2016 cost control review, with the pause on the review lifted. This was confirmed by HMT Directions in October 2021. Subsequently, SAB found that the LGPS showed only a slight reduction in costs. Despite this slight reduction, SAB confirmed that they are no longer recommending any LGPS benefit structure changes. SAB has

however reaffirmed its commitment to revisiting both Tier 3 ill health and contribution rates for the lowest paid members.

- 32 Whilst it appears that the 2016 Cost Review is coming to a conclusion, it should be noted that the Fire Brigade Union has been granted permission to appeal against the High Court's judgement to allow the inclusion of the McCloud remedy as a "member cost". Whilst the High Court previously dismissed the case, the Court of Appeal has granted permission to appeal the ruling. If successful, the 2016 review may be reopened.
- 33 When the Cost Cap Mechanism was first introduced in 2016 across the public sector it was anticipated that the mechanism would be triggered only by "extraordinary" event. As noted above however, the initial assessment of public sector schemes showed cost floor breaches leading to HMT's request for a review of the mechanism.
- 34 Following a review by GAD, the government have taken forward three main principles to adjust the mechanism for the 2020 review, so that the new Cost Control Mechanism will:
- (a) Be based on the reformed scheme only, ie. in the LGPS the mechanism will assess post 2014 costs only
  - (b) Adjust the cost floor and ceiling from +/-2% to +/- 3%
  - (c) Introduce an economic check linked to GDP

## **McCloud**

- 35 The Committee has been kept up to date with the impact and issues surrounding the McCloud judgement itself. To recap briefly, when the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination.
- 36 In July 2021, the Public Service Pensions and Judicial Offices Bill was laid before Parliament. This Bill seeks to amend the Public Service Pensions Act 2013 by making provision to rectify the unlawful discrimination by the 2014 Scheme. Now made law, the Bill established the overarching framework for the retrospective changes required for the McCloud. Additionally, however, LGPS Amendment Regulations are required to make the necessary changes to the Scheme Regulations.

- 37 The estimated cost across the whole of the LGPS is £1.8bn. As noted above, the Fund made an estimated provision for the impact at local level at the last Valuation. In terms of scheme member impact, HMRC have recently announced a range of measures intended to protect members from annual and lifetime allowance impacts.
- 38 Following its 2020 consultation, on 30 May 2023 DLUHC launched a consultation seeking views on issues relating to the McCloud remedy, and the draft scheme regulations which would implement the remedy. A summary is set out in Appendix 1.
- 39 Officers of the Fund are actively working with Participating Employers to ensure all of the necessary data is collected to be able to properly implement the anticipated remedy. Additionally, Officers continue to work with the Fund's software suppliers to ensure solutions are as effective as possible. Note that, DLUHC are also working directly with the LGPS software suppliers to discuss the implementation of the McCloud remedy. The LGA's Communications Working Group meanwhile is working on member communications, and the Fund's software supplier have established a McCloud Project Board – the Durham Fund is represented on both groups. Resources are expected to be published by the LGA on 1 October.
- 40 Additionally, as part of the McCloud remedy for the Teachers' Pensions Scheme (TPS), Chapter 1 Part 1 of the Public Service Pensions and Judicial Offices Act 2022 means that some teachers may be retrospectively eligible for the LGPS for the period from 1 April 2015 to 31 March 2022. This exercise will be administratively challenging for both the TPS and individual LGPS Funds. The LGA is currently working with DfE to identify how to identify affected members.
- 41 Officers of the Fund continue to work in readiness for resolution of the issues McCloud presents, with the remedy coming into force next month. Whilst software solutions are in place to ensure that the 'underpin' I correctly provided for some categories of members, manual intervention will be required for others. The Fund continues to work with its software supplier in consideration of future Annual Benefit Statements, with the Pensions Regulator outlining that whilst accurate Benefit Statements are still expected to be issued accurately and on time and that failure to do so would be a reportable breach, a risk-based approach will be taken in response to any such breach.

### **DLUHC Consultation on Change to the LGPS Revaluation Date**

- 42 Following a short consultation, DLUHC has implemented changes to the in-scheme revaluation date from 1 to 6 April, with effect from 1

April 2023. The change has the effect of removing the impact of high inflation (10.10% for 2023 revaluation) on the Annual Allowance and will reduce the number of members incurring a consequent tax charge. The Fund is working with its software supplier to ensure processes are in place to reflect the change in Annual Statements and Pension Savings Statements.

## **LGPS Scheme Advisory Board (SAB)**

### **SAB Review – Academies**

- 43 In 2017 SAB instigated a review of the participation of existing academies and commissioned Price Waterhouse Coopers to investigate issues of academy participation in the LGPS and prepare a report for the Board. The report made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:
- non-regulatory measures within the LGPS
  - regulatory measures within the scheme, and
  - measures outside of the LGPS, including through primary legislation.
- 44 The SAB review had been split between a funding working group and an administration working group. Work on the administration working group was put on hold due to competing work pressures and the project is no longer part of SAB's current projects.
- 45 Separately, the DfE guarantee for Academy participation in the LGPS has been increased to £20m. A copy of the Secretary of State's statement has previously been shared with the Committee.
- 46 Government has previously indicated plans for every school to be in, or in the process of joining, an academy trust. This has potential impact on the make-up of scheme membership, and admissions to the Fund. Officers will continue to monitor the position and keep the Committee informed.

### **SAB Review – Tier 3 Employers**

- 47 In addition to the review of Academy participation, above, SAB also commissioned work in respect of 'Tier 3' employers participating in the LGPS. Broadly, Tier 3 employers are those employers which:
- (i) have no tax raising powers,
  - (ii) are not backed by an employer with tax raising powers;
  - (iii) are not an academy.

- 48 Examples of Tier 3 employers include universities, further education colleges, housing associations and charities.
- 49 SAB had established a small working group to review concerns expressed by Tier 3 employers and the ways in which they may be resolved. The working group had been tasked with reporting back to the SAB with a set of recommendations for further consideration.
- 50 Whilst the third Tier Employer review is no longer part of SAB's current projects, an Office for National Statistics (ONS) review of the Further Education sector may change the classification of Colleges within the LGPS.
- 51 It is proposed that Colleges are reclassified as 'public sector', with the possibility of tighter restrictions on debt / borrowing. Additionally, the Department for Education (DfE) is considering putting in place a guarantee, similar to the one already provided for academies which would provide greater protection to LGPS Funds.
- 52 The DfE is collating relevant data directly from LGPS actuaries to better understand Colleges' funding requirements and consider the merits of providing the additional covenant assurances. Officers will continue to monitor the position, to ensure that the correct level of prudence is taken in finalising rates for Colleges in the Fund's triennial valuation. The Fund will initially maintain the rates for Colleges in line with the 2019 valuation, but will reconsider the position after the outcome of the College reclassification.

### **SAB Review – Good Governance in the LGPS**

- 53 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. SAB's work will likely result in new statutory guidance on Governance Compliance, with consideration in particular likely to be given to:
- (a) changes to the scheme's regulatory provisions on Governance Compliance Statements,
  - (b) revised statutory guidance on Governance Compliance Statements,
  - (c) independent assessment of Governance Compliance Statements, and;
  - (d) establishing a set of Key Performance Indicators (KPIs)



- 54 SAB have completed their report on Good Governance and submitted an Action Plan to DLUHC to take the recommendations of the project forward. It is expected that the next stage is for DLUHC to take the recommendations forward for implementation through legislation and / or Statutory Guidance. A more detailed update to both the Committee and Local Pension Board, and overview of the recommendations proposed to DLUHC will be provided in due course.

### **SAB Review – Responsible Investment Guidance**

- 55 In November 2019, SAB drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG factors. Following feedback, SAB has decided to take stock until more is known about the government’s position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court’s judgement involving the Palestine Solidarity Campaign. Committee will be updated as the matter progresses.
- 56 Notwithstanding this decision, SAB have progressed with further work in respect of Responsible Investment (RI), including the production of an RI A-Z Guide. It is intended that the A-Z Guide will provide LGPS stakeholders a “one stop shop for information, links and case studies in this fast growing and complex arena”. The guide will evolve over time, as new entries are added. The A-Z Guide can be found online at the following link <https://ri.lgpsboard.org/items>.
- 57 The Board has also established an RI Advisory Group (RIAG). The main role of the group will be to advise SAB on all matters relating to RI. It will also be responsible for assisting the Board in maintaining the online A-Z Guide. The Group will also assist SAB in developing recommendations to DLUHC on how the Taskforce on Climate-Related Financial Disclosures (TCFD) reporting should be applied to the LGPS.

### **SAB Correspondence – LGPS Audit**

- 58 In August 2022 the SAB Chair, Cllr Roger Phillips, wrote to DLUHC proposing a separation of pension fund accounts from main local authority accounts, due to each having the potential to delay the other. On 15 February the Minister for Local Government, Lee Rowley MP, responded to the SAB welcoming the Board’s advice and recommendation to consider the separation of main authority accounts and the pension fund accounts. A copy of the correspondence was previously shared with the Committee. The

Minister has asked his officials to consider the scope for developing this further. The Committee will be kept informed as the matter progresses.

### **SAB – Preparing the Annual Report**

59 The SAB has convened a working group to review the 2019 CIPFA ‘Preparing the Annual Report’ guidance and has identified several areas within the current guidance which now require updating and clarification. A priority has been to streamline the guidance and reduce duplication wherever possible with other reporting obligations – SAB report that this direction has the support of DLUHC.

60 A key area includes how funds should report the asset classes in which it invests. New guidance will suggest funds follow a ‘worked example’ template provided by the SAB which aims to improve consistency and better scheme-level reporting of asset allocation by SAB. Using standard data to report asset classes also aims to make the annual report process simpler for funds and more consistent for readers. From an administrative perspective, Key Performance Indicators are being reviewed with an aim to better define them and allow for standardised reporting. The new guidance aims to be in place ready for the 2023/24 reporting period – Officers will keep both the Board and Committee updated of the emergent requirements.

### **SAB – Sharia Compliance**

61 The SAB has received legal advice suggesting that it should instruct an expert in Islamic finance to provide evidence on Sharia Compliance in the LGPS. Consequently, the Board has commissioned an expert in the field of Sharia finance and will subsequently instruct counsel upon receipt of the evidential findings. The Committee will be updated as further information emerges.

## **Non- LGPS Specific Matters**

### **Public Sector Exit Payments Caps**

62 The Small Business, Enterprise and Employment Act 2015 introduced the concept of a ‘public sector exit payments cap’. The legislation provides that exit payments to be paid to a person are not to exceed £95,000. The 2015 Act provided the overarching principles of how the exit cap was to operate, but the detail was to be prescribed in regulations that were expected to soon follow.

- 63 After a period of delay the Treasury launched a new consultation on this matter in April 2019. Included in the consultation were draft regulations called 'The Restriction of Public Sector Exit Payment Regulations 2019' which provided detail on how the exit cap should operate from an employer's perspective.
- 64 Under the Regulations, the cap was to remain at £95,000 and include:
- redundancy payment(s);
  - any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (known as 'strain on the fund' or 'early release' cost);
  - any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
  - any severance payment or ex gratia payment;
  - any payment in the form of shares or share options;
  - any payment on voluntary exit;
  - any payment in lieu of notice due under a contract of employment;
  - any payment made to extinguish any liability under a fixed term contract;
  - any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office.
- 65 Most significantly for the LGPS, was the inclusion of the 'strain on the fund' costs being included towards the cap. These costs of allowing unreduced access to pension benefits for members over 55 can exceed £95,000 for scheme members with long periods of membership.
- 66 Separately to the Exit Payment Regulations, DLUHC consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As DLUHC's proposed changes were not implemented concurrently with the Exit Payment Regulations, there was legal uncertainty for both LGPS Administering Authorities and participating employers due to the conflicting legislation.

- 67 On 12 February however the Exit Cap was unexpectedly disapplied, after the Treasury issued the 'Exit Payment Cap Directions 2021'. The Treasury will bring forward at pace revised proposals in respect of public sector exits. The Committee will be updated as further details emerge.

### **UK Stewardship Code 2020**

- 68 The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund has previously signed up the Code, and BCPP also publish a UK Stewardship Code compliance statement.
- 69 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and comprises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.
- 70 The LGPS (Management and Investment of Funds) 2016 Regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.
- 71 Together with peers at BCPP Partner Funds, Officers are working to consider the new Code and how to ensure compliance. A more detailed report will be provided to the Committee in due course.

### **Increasing the UK Minimum Pension Age**

- 72 The Committee have previously been informed of the intention to raise the Normal Minimum Pension Age (NMPA) in the UK and members will recall that a consultation entitled 'Increasing the normal minimum pension age: consultation on implementation' was launched on 11th February and ran until 22nd April 2021.
- 73 The consultation proposed that, due to increases in longevity and changing expectations of how long individuals will remain in work and

in retirement, the minimum pension age would increase from 55 to 57 in 2028. When the policy was first announced, it was intended that the NMPA would be 10 years earlier than the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

- 74 The Finance Act gained Royal Assent on 24 February, which will increase the minimum retirement age in the UK from 55 to 57 from April 2028. The Act provides for protected pension ages for members who meet entitlement conditions. The government will need to change the LGPS rules to align with the NMPA at some point on or before 6 April 2028. It will also need to consider whether LGPS members who qualify for protection will be allowed to receive payment before 57.
- 75 The LGA have advised that the change is not material, such that scheme members must be immediately informed of the change. Nonetheless, the Fund informed its active and deferred members of the proposed change within Annual Benefit Statements.

### **TPR Code of Practice**

- 76 The Pensions Regulator (TPR) has consulted on a single Code of Practice to cover all regulated schemes. Presently, the Regulator has a specific Code for Public Service Pensions. Whilst the new Code does not extend TPR's powers in the LGPS beyond its existing remit on governance and administration, there are some concerns over how the provisions of the Code fit with the LGPS. SAB have responded on behalf of the LGPS.
- 77 The Regulator plans to carry out a full review of the comments received through the consultation which it will consider carefully. TPR do not currently have a firm final publication date for the new code. The Local Pension Board's existing Workplan addressing the existing 'Public Service Pension Code of Practice' has been rolled forward until the revised Code emerges.

### **Boycotts, Divestment and Sanctions**

- 78 The government's legislative programme was laid out in May 2021. The programme included a Boycotts, Divestment and Sanctions (BDS) Bill the purpose of which was to be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations covering purchasing, procurement, and investment decisions.

- 79 In advance of the BDS Bill an amendment to the Public Services Pensions Bill passed, which proposed conferring powers to the Secretary of State to make guidance in respect of BDS. The clause would enable the Secretary of State to issue guidance to LGPS administering authorities that they may not make investment decisions that conflict with the UK's foreign and defence policy. The Public Services Pensions Bill gained royal assent, but this does not place any immediate duty on Funds.
- 80 The government intends however to implement the commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .For the position to change for the LGPS, a full 12 week consultation would be required. SAB Guidance on the matter was previously shared with the Board and Committee.

### **Pension Scams and new Restrictions on Transfers**

- 81 From 30 November 2021 new regulations ('the Occupational and Personal Pension Schemes Conditions for Transfers Regulations 2021') place greater restrictions on transferring out of the Pension Fund. The new Regulations require the Fund to carry out greater due diligence to protect scheme members from falling foul of Pension Scams.
- 82 The Fund will be required to notify members seeking to transfer out, that the transfer can only proceed if there are no due diligence red flags, or, if the transfer is to a public service scheme, master trust or collective money purchase scheme.
- 83 The Fund already provides warnings to its scheme members of the risks of pension scams through the Pensions Regulator's 'Scams warning' – a copy of which has previously been provided to the Local Pension Board. The Fund has also worked with the Regulator to provide a bespoke warning through the Online Portal. In light of the new Regulations however, Officers have amended the Fund's transfer process to reflect the new requirements. Scheme Members were again warned against scams in 2022 Annual Benefit Statements.
- 84 Following a major data breach at third-party pensions administrator, Capita, the Pensions Regulator has reminded pension funds of the importance of warning members about scams. A reminder will be provided to all active and deferred scheme members in their Annual

Benefit Statements. The Committee have previously been informed of the Pensions Regulator's statement on the Capita Breach.

85 On 10 August 2023, the Money and Pensions Service (MaPS) published its evidence review into pension scams in the U K. The key findings are:

- there remain significant challenges to estimate the scale of the problem
- the types of scams and tactics are very similar to investment scams
- the financial and emotional cost to individuals is high, going beyond financial loss and impacting on health and relationships
- scams can happen to anyone
- once an individual has been targeted, there is a high risk of retargeting
- government bodies, administrators and other organisations have at their disposal a range of touchpoints to provide strong protection against scams.

### **Stronger Nudge**

86 The government has introduced legislation to ensure that individuals are made aware of 'Pension Wise' guidance as part of the process for taking or transferring Defined Contribution (DC) pension savings. Whilst the LGPS is not a DC Scheme, the legislation is applicable to the Scheme's AVC provision.

87 The 'Stronger Nudge' requirement is introduced by the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022 (SI 2022/30). These 'Nudge' Regulations require the Fund to refer scheme members who are seeking to take or transfer their AVCs to the Pension Wise service.

88 The requirement applies to all applications received on or after 1 June 2022 in respect of retirees taking payment of their AVCs, and those aged over 50 seeking to transfer their AVCs to another DC Scheme. The Fund has amended its processes and paperwork to ensure compliance with the Nudge Regulations. The Fund will offer to book a Pension Wise appointment at a date and time suitable for the scheme member where required. It should be noted that scheme members retain the right to opt out of receiving Pension Wise

guidance. Further detail of the Fund's compliance has been provided to the Local Pension Board.

## **Dashboard**

- 89 Pensions dashboards are digital services — apps, websites or other tools — which savers will be able to use to see their pension information in one place. It is the government's intention to create a national Pensions Dashboard that will enable savers to see all their pensions information in one place online, including on their State Pension. It is hoped that through the Dashboard savers will be able to make better informed decisions about their retirement, as well as find lost and forgotten pots.
- 90 Like all large pension schemes, the LGPS will be required to connect and supply data to the government's national Pensions Dashboard. It was expected that pensions schemes would start to connect to the Dashboard from August 2023, with the LGPS expected to connect in Autumn 2024. However, the Pensions Minister, Laura Trott MP, made a statement on 2 March announcing the intention to amend the staging timetable to allow more time for the technological system enabling dashboards to be delivered. As a result all schemes' deadlines will be changing.
- 91 Subsequently, DWP confirmed that The Pensions Dashboards Programme (PDP) is currently in reset, as part of refreshing its delivery plan for a new connection deadline of 31 October 2026. The process aims to allow DWP the opportunity to review the programme and reset the plan. It also provides the time to ensure required resources are in place to complete the delivery of the technical solution and documentation to support connection. The Committee will be kept informed.

## **Changes to Pension Taxation**

- 92 In the Spring Budget, the Chancellor announced changes to pension taxation. The Annual Allowance (which is the maximum amount of pensions savings an individual can make each year before incurring a tax charge) was increased from £40,000 to £60,000 from 6 April 2023. Changes have also been made to the Lifetime Allowance, the charge for which will be reduced to zero from 6 April 2023, before being fully abolishing entirely in a future Finance Bill.
- 93 Officers will ensure that scheme members are appropriately advised of the implications through Annual Statements, and Pensions Savings Statements. All participating employers were made aware of the changes, enabling them to alert their employees who are most likely to be affected.



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## Appendix 1: Summary of 2023 McCloud consultation

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- **Aggregation** – DLUHC now proposes that service does not need to be aggregated for a member to qualify for McCloud, but, where a member who qualifies for underpin protection leaves and re-joins the LGPS or holds concurrent posts and LGPS membership ends in one post, that it is required in order for underpin figures to be recalculated when they next have an underpin
- **Club transfers** – DLUHC is now proposing that members will not need to have transferred their previous service in another public service pension scheme into the LGPS to qualify for underpin protection in the LGPS. Instead, if an LGPS member had membership of another public service pension scheme on or before 31 March 2012 and did not have a disqualifying gap, they would have underpin protection on their LGPS service in the underpin period (even if the previous service was not transferred to the LGPS)
- **Flexible retirement** – DLUHC proposes that a protected member will have a second underpin date if they took flexible retirement between 1 April 2014 and 31 March 2022 and continued to build up pension in the underpin period after their flexible retirement and before they reached their final salary normal pension age. The proposed treatment of partial flexible retirement is also set out. The approach may lead to multiple underpin and final underpin dates and will be complex to administer but DLUHC intends that the approach will deliver consistent protection
- **Divorce** – actuarial guidance will be updated to reflect the McCloud remedy and there will be minor changes to how pension debits are reflected in underpin calculations
- **Injury allowances** – DLUHC does not believe that any special provisions are required in relation to this group
- **Excess teacher service** - excess teacher service is pensionable in the LGPS, and members will be retrospectively admitted to the LGPS for the period they were in the TPS reformed scheme during the remedy period
- **Compensation** - draft regulations include provisions regarding payment of and applications for compensation
- **Interest** – draft regulations set out the interest applicable and the period applicable for various types of payment (e.g. retrospective pension/lump sum addition, direct/indirect compensation for financial loss/Part 4 tax loss)

## Pension Fund Committee

14 September 2023

### Local Government Pension Scheme Consultation: Next Steps on Investments



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## Report of Paul Darby, Corporate Director of Resources

### Purpose of the Report

- 1 This report provides a briefing on the Department for Levelling Up, Housing and Communities (DLUHC)'s consultation on next steps for LGPS investments.
- 2 The report seeks to outline the implications of the key provisions in the consultation, principally: the completion of asset transition into the existing LGPS pools, DLUHC's ambition for greater scale through fewer pools, and direction over how LGPS Funds should invest.

### Executive summary

- 3 Since 2025, the Pension Fund has worked in collaboration with 10 local authority partners to pool its c£3.5bn assets through its chosen pooling company, Border to Coast Pension Partnership. As of this summer, the Fund has pooled all of the liquid assets in its investment strategy. The Fund has benefitted from the availability of a Private Markets programme through the pool, extensive Responsible Investment resource, and has generated cost savings which are reported annually in the Fund's Annual Report and Accounts.
- 4 More widely however, progress on pooling has stalled across much of England and Wales. Despite a clear policy intention to deliver pooling, in the absence of guidance or regulation, many Administering Authorities have chosen to retain their assets outside of their respective pool.
- 5 In light of the lack of progress, DLUHC is consulting on pooling consolidation, setting Administering Authorities a deadline of 2025 to pool liquid assets and introducing enhanced reporting requirements on pooling progress. It is proposed that a smaller number of larger pools

would provide greater economies of scale, and that greater collaboration should be pursued. In a wide-ranging consultation, the government also seeks to direct LGPS Funds in the way in which they invest. In particular, targets are proposed for allocations to investments which support UK Levelling Up and allocations to Private Markets more generally.

6 The consultation runs until 2 October 2023.

### **Recommendation(s)**

7 The Committee are asked to:

- a) note the report and provide any comments on the consultation, and
- b) authorise the Corporate Director of Resources to respond to the consultation in consultation with the Chair and Vice-Chair of the Committee.

## **Background to Pooling - Border to Coast Pensions Partnership**

- 8 In the summer budget 2015, the Chancellor announced the intention for administering authorities to bring forward proposals for pooling Local Government Pension Scheme (LGPS) investments, to deliver reduced costs while maintaining overall investment performance. Subsequently, the Department for Communities and Local Government issued 'Investment Reform Criteria and Guidance,' inviting proposals for LGPS asset pooling.
- 9 The guidance required administering authorities to submit detailed proposals to the Government by 15 July 2016. Following the submissions of proposals for eight separate LGPS asset pools, the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 came into force on 1 November 2016. Under the Regulations, each administering authority was required to formulate and publish an Investment Strategy Statement (ISS), which was to include the approach to asset pooling including the use of collective investment vehicles.
- 10 On 12 December 2016, the Secretary of State wrote to the Fund and its pooling partners, approving the proposals for Border to Coast Pensions Partnership - 'BCPP'. The proposals set out for BCPP were for 12 LGPS Funds (subsequently reduced to 11 following Northumberland-Tyne & Wear merger), with combined assets at the time exceeding £35bn, to pool those assets. In developing the proposals for BCPP, specialist legal advice and that of cost consultants concluded that the most suitable vehicle for the BCPP pool was a wholly owned company regulated by the Financial Conduct Authority (FCA).
- 11 BCPP limited was subsequently established as a regulated asset manager in 2018, with the aim of making a difference for the LGPS by providing cost-effective, innovative, and responsible investment opportunities that deliver returns over the long-term. This is on behalf of the more than 1.1 million LGPS members, over 2,800 employers, and the millions of taxpayers associated with the Partner Funds. BCPP is led by Chief Executive Rachel Elwell, who has overseen the growth of the company which now has in excess of £40bn assets under management.
- 12 BCPP have subsequently developed a range of investment sub-funds to enable the underlying local authority Partner Funds to implement their investment strategy through the BCPP pool. To support this implementation, BCPP have developed a significant Private Market programme, providing Partners access to opportunities across Private Equity, Infrastructure, and Private Debt. Additionally, BCPP have

launched an innovative Climate Opportunities Fund. To the end of 2022/23 Partner Funds have committed £12bn across the programme.

## **2023 Government Consultation – ‘LGPS – Next Steps on Investment’**

- 13 Despite government policy intention, progress on pooling has been mixed, with some LGPS Funds not yet having pooled any assets. There has long been an expectation of guidance to provide clearer direction on pooling requirements and reporting, but an expected consultation had been continually delayed. Similarly, the Scheme Advisory Board (SAB)’s Good Governance recommendations have yet to be progressed into either Statutory Guidance or regulation by DLUHC; with conversations continuing with SAB as to how this can be achieved.
- 14 Meanwhile, in its February 2022 White Paper, ‘Levelling Up the United Kingdom’, DLUHC set out its intention for how opportunity could be spread more equally across the UK. Within its provisions, the paper set out the UK Government’s intention for LGPS Funds to “publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas”.
- 15 Subsequently, in his July 2023 Mansion House speech the Chancellor announced the intention to consult on further consolidation in the LGPS. The consultation (‘LGPS: Next steps on investments’), launched on 11 July 2023 and is wide ranging in its scope. Included, is a three-stage process in relation to concluding LGPS pooling as well as proposed direction of investment strategy including the Levelling Up ambitions first mooted last year.

## **Consultation – Conclusion of Asset Transition to Pools by 2025**

- 16 As noted, progress on pooling has been mixed across England and Wales. Whilst the Durham Fund has successfully pooled all of the liquid assets within its investment strategy, and the Border to Coast pool managing or having oversight of 83% of Partner Funds’ assets, pace elsewhere has been much slower. In part, this pace may be driven by a lack of regulation or guidance – currently the only legal requirement regards pooling is for LGPS Funds to publish an approach to pooling and rationale for assets held outside of the pool.
- 17 Through the consultation the government seeks to accelerate pooling and sets out a proposal for all liquid assets held by LGPS Funds to be pooled by 31 March 2025 – this is not an issue for the Durham Fund, having reached this target already this year. A detailed rationale must be provided for any assets held outside for pool, to be included in the Investment Strategy Statement. It is expected that small allocations to local investment may continue to be held outside of the pool – this is the

only long-term holding that Durham would currently anticipate pooling. The Fund will therefore request that DLUHC make clearer that it is acceptable that such investments, which support other policy directives in the consultation, are retained outside of the pool.

- 18 Completion of LGPS asset transition by 2025 is seen by DLUHC as a major step forward, and the first stage of its process to conclude pooling. The consultation envisages Pools playing a greater role in advising Funds, though it should be noted that strategic asset allocation remains sovereign to the Pension Fund Committee of each LGPS Administering Authority. The Fund is actively working with Border to Coast however, to explore future strategy and how to best leverage the expertise at the pool.

### **Consultation - Consolidation**

- 19 The original policy directive for pooling of LGPS assets aimed to deliver the benefits of scale, improved governance and decision making, reduced costs and excellent value for money, as well as capacity and capability to invest in infrastructure to help drive growth. LGPS Administering Authorities responded by coming together in groups of their own choosing to form 8 asset pools of varying size.
- 20 The consultation envisages internal investment management capability, which is already well established at Border to Coast, and, as part of a second stage - greater inter-pool collaboration. Whilst collaboration could be explored, it should be recognised that Border to Coast investment propositions are developed for the strategies of their Partner Funds – other LGPS Funds will have divergent strategies. Additionally, in Private Markets in particular, some Border to Coast offerings are capacity constrained – access to such propositions for external pool customers would create a tension between the interests of Border to Coast Partners and those customers.
- 21 Once the proposed asset transition is completed by 2025, 5 of the 8 existing pools (including BCPP) would be around £50bn and the remaining 3 pools would occupy the £25 billion - £40bn range. Whilst £50bn was previously the ‘target’ size for pools, the consultation outlines the ambition for greater scale through fewer pools. DLUHC express the view that the benefits of scale are present in the £50-75bn range and may improve as far as £100bn. The final stage of pooling then, would be consolidation.
- 22 Consolidation will give rise to potential governance challenges for both Border to Coast and its Partner Funds. Presently, the pool has 11 Partners who act as both shareholders and customers working with an agreed set of principles, including “one fund one vote” – irrespective of fund size. The governance structures and collective approach have

supported the success of pooling progress within Border to Coast and a collective approach to Responsible Investment. There is a risk that with a greater number of Partners, governance becomes more challenging.

## **Consultation – Investment Direction**

- 23 The consultation proposes that LGPS Funds should target an allocation to Private Equity of 10%. It is understood that this provision is included to ensure that risk remains on the table for LGPS Funds, in order to avoid de-risking at the cost of the taxpayer. Feedback from DLUHC would indicate that this provision is erroneously worded, and “Private Equity” should be taken to mean growth capital more broadly. The Fund will seek clarification that this is the intention, and this is a global allocation and not UK.
- 24 The Fund currently targets 10% to Private Markets, split broadly evenly between Private Equity, Debt and Infrastructure. Part of this allocation is invested thematically in ‘Climate Opportunities’ to support the transition to a low-carbon economy. Additionally, the Fund has a target allocation of 5% with an ambition of investing with impact, of which 0.5% has been committed to North-East SMEs. The Fund also has an allocation of 10% to Real Estate, split between Global and UK-specific allocations.
- 25 It is proposed that Funds will report performance for each asset class against a consistent benchmark. Whilst an intention to allow for greater comparability, there are undoubted pitfalls. Each individual LGPS Fund has its own investment strategy and risk appetite and may be seeking to deliver significantly different outcomes. There is a danger that returns are taken out of context – and could lead to inappropriate short term investment decisions being made. Focus on cost savings could similarly lead to unintended consequences, as Funds are directed to investment into more expensive asset classes. It is intended that such reporting would be captured in SAB’s scheme-wide Annual Report.
- 26 The consultation seeks collaboration between the British Business Bank and the LGPS. Border to Coast will consider the appropriateness of any such collaboration as well as other partners who can support deployment of growth capital. It should be noted that Border to Coast already has a well-established Private Markets team and investment programme. Additionally, the Durham Fund already invests alongside the commercial arm of the Business Bank through the North-East Regional Investment Fund.
- 27 The Pension Fund Committee members undertake significant training before participating in the Committee, and before any investment decision is taken. The Fund is also in the process of enhancing its ongoing training offer for members. The consultation would require the



Fund to formalise its training approach in a statutory policy document. Progression of the outstanding guidance from DLUHC on the Good Governance recommendations would offer a more holistic directive regards Committee training.

## **Consultation – Levelling Up Direction**

- 28 Addressing the Levelling Up ambitions first set out in the 2022 White Paper, DLUHC set out a proposal that would require LGPS Funds to publish a plan for how they will invest 5% in projects that support Levelling Up. It should be noted that the requirement is UK-wide in its scope. Within the consultation, the Foresight Fund supported by Durham is held up as one of four examples of best practice.
- 29 To address the Levelling Up requirement, Border to Coast is currently developing a UK Opportunities fund. It is anticipated that investments within this BCPP fund will fully meet the requirements currently consulted upon.
- 30 It is recognised in the consultation however, that many funds already have investments which contribute to Levelling Up which in some cases will exceed 5%. The Durham Pension Fund is currently underweight its target allocation to Private Markets, and in its last investment strategy review set aside a 5% allocation with the ambition of increasing its impact investment. Following appropriate due diligence, the Fund will consider an allocation to BCPP's UK Opportunities but may need to deploy further capital outside of the pool to meet its ambition.

## **Supporting Levelling Up - BCPP's UK Opportunities Fund**

- 31 Supplementing the existing Private Markets programme, in April 2024 BCPP aim to launch their UK Opportunities Fund which will provide its Partner Funds with additional opportunities to invest in private market assets across the UK, such as venture and growth capital. UK Opportunities is being designed to provide a Private Markets investment strategy focused on providing attractive risk adjusted investment returns to Border to Coast's 11 Partner Funds. The Fund will target an 8% return for Partner Fund investors.
- 32 The UK Opportunities Fund will be a multi-asset UK strategy investing in areas such as Corporate Financing, Housing, Property, Infrastructure, Renewables, and Social Bonds. The nature of underlying investments should result in a range of positive impacts, which could include jobs created, new housing units delivered (residential, affordable, social, assisted), new commercial floor space, delivery of local infrastructure, renewable energy capacity, the provision of training including apprenticeships. It should be noted that the Fund will be a UK-wide

strategy with an expected tilt to BCPP regions, which range from the North-East to Surrey.

- 33 The UK Opportunities proposition will include an innovative mechanism whereby Partner Funds, and their local authorities, may submit potential investment opportunities for consideration by the sub-fund's underlying managers. Whilst the mechanics are being finalised, it is broadly welcomed by Partner Funds that the regions served by Border to Coast will have improved access to investment appraisal. It should be noted that neither Partner Fund nor BCPP Officers will be involved in the appraisal of such opportunities.
- 34 It is anticipated that the UK Opportunities sub-fund will have scale of between £0.5-£1bn and should provide a wide exposure to investments that have an impact within the regions that BCPP serves. BCPP recognise however, that it is unlikely that it will be able to fully satisfy all Partner Fund needs in this area. As a result, some Partner Funds may choose to make small, local investments outside of Border to Coast, subject to having available resources, the identification of investible opportunities and a suitable due diligence process.
- 35 Full training on the UK Opportunities Fund will be provided for the Committee in due course.

### **Supporting Levelling Up - Foresight North-East Regional Investment Fund**

- 36 As part of its Private Markets allocation, the Durham Pension Fund Committee considered how it could successfully achieve an impact in the region, whilst generating an appropriate investment return. Having considered the success of SME financing in other regions, following a process of due diligence the Fund provided the £18m necessary cornerstone funding to Private Equity manager Foresight, to successfully launch the North-East Regional Investment Fund. The Fund was too small for BCPP's primary Private Markets programme and came too soon for the forthcoming UK Opportunities and was therefore transacted outside of the BCPP pool.
- 37 The Regional Investment Fund supports growth companies across all sectors, stages and transaction types with investments of up to £10m. Deployment of capital from the Fund is restricted to SMEs with headquarters or significant operations in County Durham, East Riding of Yorkshire, North Lincolnshire, North Yorkshire, Northumberland, Tyne and Wear, Teesside and West Yorkshire.
- 38 The Fund seeks to accelerate economic growth, delivering positive social and economic impact, and creating high-quality, local jobs. The Fund has made three investments since it launched in June 2022, with

a strong pipeline of further opportunities being considered. Following its launch at Hotel Indigo in Durham City, Foresight subsequently opened an office on Grey Street, Newcastle to support the deployment of the Fund.

- 39 The North-East Fund has successfully attracted additional capital, with a substantial commitment from British Business Investments, the wholly owned commercial subsidiary of the British Business Bank. After undertaking appropriate due diligence on the regional fund, Tyne and Wear's Pension Fund Committee recently provided significant support to the regional fund with a £30m investment. Commitments to the Fund now total £90m.
- 40 Foresight's regional strategies have created thousands of high-quality, local jobs and enabled growth companies across the UK to flourish and positively impact local economies. Returns for investors have been strong, and the North-East Fund will seek a 15% Internal Rate of Return – providing the region's LGPS Funds with a target return commensurate with the asset class. DLUHC single out Durham's investment in the Fund as one of four examples of best practice, in terms of LGPS support for Levelling Up.

### **Next Steps**

- 41 Officers of the Durham Fund have joined a small Border to Coast working party to fully understand the implications of the consultation, and to draft a collective response, which the members of the Joint Committee will be asked to approve. The Joint Committee, constituted of all 11 Partner Fund Chairs, will meet in early September for a briefing on the consultation, ahead of their formal meeting on 28 September where the response to the consultation will be considered.
- 42 The Durham Committee is asked to provide its views and feedback on the consultation, and to provide delegated authority to Officers to respond in consultation with the Committee Chair and Vice-Chair.

### **Background papers**

- 'Local Government Pension Scheme: Next Steps on Investments' available online at:  
<https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/local-government-pension-scheme-england-and-wales-next-steps-on-investments>

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